



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 28, 2005

H.R. 3204 **State High Risk Pool Funding Extension Act of 2005**

As passed by the House of Representatives on July 27, 2005

SUMMARY

H.R. 3204 would amend the Public Health Service Act to authorize appropriation for the creation and operation of a state high-risk health insurance pool. The high-risk pools offer health insurance to individuals who cannot obtain coverage in the marketplace. Under an authorization that expired in 2004, the Department of Health and Human Services (HHS) provided seed grants to states to create a high-risk health insurance pool and operational grants for the losses incurred in connection with the operation of a pool. H.R. 3204 would authorize the appropriation of \$15 million for the seed grants and \$50 million a year for the operational grants over the 2005-2009 period. In addition, the act would alter how grants are allotted to states. CBO estimates that implementing H.R. 3204 would cost \$30 million in 2006 and \$230 million over the 2006-2010 period, assuming appropriation of the specified amounts. Enacting H.R. 3204 would not affect direct spending or revenues.

H.R. 3204 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would extend and expand authorized funding for grants to states that operate high-risk insurance pools.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3204 is shown in the following table. The costs of this legislation fall within budget function 550 (health).

	By Fiscal Year, in Millions of Dollars					
	2005	2006	2007	2008	2009	2010
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Authorization Level	65	50	50	50	50	0
Estimated Outlays	0	30	50	50	50	50

BASIS OF ESTIMATE

H.R. 3204 would amend the Public Health Service Act to reauthorize a program that provided grants to states that establish a qualifying health insurance pool for high-risk individuals. The act would authorize the appropriation of \$15 million in 2005 for seed grants to states to establish qualified high-risk health insurance pools, and would also authorize the appropriation of \$50 million for each of the fiscal years 2005 through 2009 for grants to states to defray the cost of operating high-risk pools. The original program appropriated funds for seed grants during 2003 and for grants to defray operating costs during 2003 and 2004. CBO estimates that implementing H.R. 3204 would cost \$230 million over the 2006-2010 period, assuming appropriation of the authorized amounts.

The seed grant program would provide grants of up to \$1 million to each state that establishes a qualified high-risk insurance program. Based on the experience of the original seed grant program, and on information from HHS regarding the number of states likely to qualify for seed grants in 2005 and 2006, CBO estimates that costs for the seed grants would total \$5 million over the 2005-2010 period.

H.R. 3204 would eliminate both the original requirement that each state match the amount of the federal grant to defray the cost of operating a high-risk pool and the corresponding limit on the federal contribution to no more than half of the operating loss of the pool. The act would require that a portion of the fiscal year 2005 funds for operational grants be used for grants to provide supplemental benefits, such as premium subsidies for low-income individuals, a reduction in premiums or other cost-sharing requirements, an expansion or broadening of the pool of individuals eligible for coverage, or increased benefits to enrollees or potential enrollees in a qualified high-risk pool. However, on June 30 of the following fiscal year, unspent funds allocated to grants for supplemental benefits would be distributed to states receiving operational grants that cover incurred losses.

The act also would modify the formula for allocating funds to states to give one third of the funds to eligible states equally and apportion remaining two-thirds based on the number of

uninsured individuals in each state and the number of enrollees in the state's qualified high-risk pool. Previously, all funds were allotted based solely on the number of uninsured individuals in the state. Based on the operating losses of the existing pools (in 31 states), CBO expects that all of the appropriated funds would be spent, costing \$230 million over the 2006-2010 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3204 contains no intergovernmental or private-sector mandates as defined in the UMRA and would benefit states by authorizing funding to establish and continue operations of high-risk pools for health insurance.

PREVIOUS CBO ESTIMATE

On July 25, 2005, CBO transmitted an estimate of H.R. 3204, the State High Risk Pool Funding Extension Act of 2005, as ordered reported by the House Committee on Energy and Commerce on July 20, 2005. That bill incorporated an amendment that changed the funding mechanism from appropriation (direct spending) to authorization of appropriation (discretionary spending). CBO's estimate failed to recognize that change. The current estimate of H.R. 3204 corrects that error and assumes the appropriation of the authorized amounts. The estimated costs of the two versions of the legislation are identical, but such spending would be discretionary under H.R. 3204 (not direct spending as incorrectly stated in our previous estimate for this bill).

On February 10, 2005, CBO transmitted an estimate of S. 288, the State High Risk Pool Funding Extension Act of 2005, as reported by the Senate Committee on Health, Education, Labor, and Pensions on February 10, 2005. That bill would directly appropriate funds and specifies a higher level of funding. The differences in cost estimates reflect differences in the funding mechanism and the level of appropriations: S. 288 would appropriate \$90 million in fiscal year 2005 and \$75 million a year for fiscal years 2006 through 2009, while H.R. 2304 would authorize the appropriation of \$65 million in fiscal year 2005 and \$50 million a year for fiscal years 2006 through 2009.

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